

EXHIBIT 1

INTRODUCTION

Respondent Vikram Budhreja is a consultant for the Department of Water Resources (“DWR”), in the California Energy Resources Scheduling division (the CERS division). In January 2001, in the midst of the state energy crisis, Respondent was hired by DWR as a consultant to assist the state in its efforts to stabilize the energy market and to increase its supply of energy.

As a consultant to DWR, Respondent is prohibited by Government Code section 87100 of the Political Reform Act (the “Act”)¹ from making, participating in making, or using his official position to influence any governmental decision in which he has a financial interest. In this matter, Respondent participated in making five governmental decisions in which he had a financial interest.

For the purposes of this stipulation, Respondent’s violations are stated as follows:

COUNT 1: On or about, and between January 25 and February 16, 2001, as a consultant to the Department of Water Resources, Respondent Vikram Budhreja “participated in making a governmental decision” in which he had a financial interest, by advising DWR regarding the purchase of 600 megawatts of base energy from Williams Energy Marketing & Trading Company, a source of income to him of \$500 or more, in violation of section 87100.

COUNT 2: On or about, and between January 25 and February 16, 2001, as a consultant to the Department of Water Resources, Respondent Vikram Budhreja “participated in making a governmental decision” in which he had a financial interest, by advising DWR regarding the purchase of 300 megawatts of peak energy from Williams Energy Marketing & Trading Company, a source of income to him of \$500 or more, in violation of section 87100.

COUNT 3: On or about, and between January 25 and February 16, 2001, as a consultant to the Department of Water Resources, Respondent Vikram Budhreja “participated in making a governmental decision” in which he had a financial interest, by advising DWR regarding the purchase of 400 megawatts of peak energy from Williams Energy Marketing & Trading Company, a source of income to him of \$500 or more, in violation of section 87100.

¹ The Political Reform Act is contained in Government Code sections 81000 through 91014. All statutory references are to the Government Code unless otherwise indicated. Commission regulations appear at title 2, California Code of Regulations, sections 18109 through 18997. All regulatory references are to title 2, division 6, of the California Code of Regulations.

- COUNT 4: On or about, and between January 25 and February 16, 2001, as a consultant to the Department of Water Resources, Respondent Vikram Budhraj "participated in making a governmental decision" in which he had a financial interest, by advising DWR regarding the purchase of 500 megawatts of peak energy from Williams Energy Marketing & Trading Company, a source of income to him of \$500 or more, in violation of section 87100.
- COUNT 5: On or about July 6, 2001, as a consultant to the Department of Water Resources, Respondent Vikram Budhraj "participated in making a governmental decision" in which he had a financial interest, by advising DWR regarding the purchase of 300 megawatts of base energy from PacifiCorp Power Marketing, Inc., a subsidiary of a company in which he had an investment interest of \$2,000 or more, in violation of section 87100.

SUMMARY OF THE LAW

Prohibition Against Conflicts of Interests

As set forth in section 81001, subdivision (b), one of the findings of the Act is that public officials, whether elected or appointed, should perform their duties in an impartial manner, free from bias caused by their own financial interests, or the financial interests of persons who have supported them. As set forth in section 81002, subdivision (c), a stated purpose of the Act is that the assets and income of public officials, which may be materially affected by their official actions, be disclosed, and in appropriate circumstances, that the officials disqualify themselves from acting, so that conflicts of interest may be avoided.

In order to prevent conflicts of interest, section 87100 prohibits state and local public officials from making, participating in making, or using their official position to influence a governmental decision in which they know, or have reason to know, that they have a financial interest. Section 82048 defines the term "public official" to include a consultant of a state agency.

Regulation 18701, subdivision (a)(2)(B) defines a "consultant" as an individual who, pursuant to a contract with a state agency, serves in a staff capacity with the agency, and in that capacity, participates in making a governmental decision or performs the same or substantially all the same duties for the agency that would otherwise be performed by an individual holding a position specified in the agency's conflict of interest code.

Under regulation 18702.2, for the purposes of section 87100, a public official "participates in making a governmental decision" when, acting within the authority of his or her position, the official negotiates, without significant substantive review, with a governmental entity or private person regarding a governmental decision; or advises or makes recommendations to the decision maker either directly or without significant

intervening substantive review, by: (1) conducting research or making any investigation which requires the exercise of judgment on the part of the official, and the purpose of which is to influence a governmental decision; or (2) preparing or presenting any report, analysis, or opinion, orally, or in writing, which requires the exercise of judgment on the part of the official, and the purpose of which is to influence a governmental decision.

Under section 87103, subdivision (c), a public official has a financial interest in a decision, within the meaning of section 87100, if it is reasonably foreseeable that the decision will have a material financial effect on a source of income of \$500 or more received by the public official within 12 months prior to the time when the decision is made. Section 82030, subdivision (a) provides that the income of a public official includes a pro rata share of any income of any business entity in which the official owns a 10 percent interest or greater.

Under section 87103, subdivision (a), a public official also has a financial interest in a decision, within the meaning of section 87100, if it is reasonably foreseeable that the decision will have a material financial effect on a business entity, including any parent or subsidiary thereof,² in which the official has a direct or indirect investment worth \$2,000 or more. (See Regulation 18703.1, subd. (c).)

Whether the reasonably foreseeable financial effect of a governmental decision is material depends upon the nature of the interest, whether the effect is direct or indirect, and if indirect, the degree to which the economic interest is involved in the decision. Under regulation 18704.1, subdivision (a), a business entity is directly involved in a governmental decision when that entity initiates the decision, or is a named party in, or the subject of, the decision.

Under regulation 18705.1, subdivision (b), if a business entity is directly involved in a governmental decision, the reasonably foreseeable financial effect of the decision on the business entity is presumed to be material, unless the public official's only economic interest in the business entity is an investment interest, and the investment is worth \$25,000 or less. If the \$25,000 investment interest exception is applicable, and the business entity is listed on the New York Stock Exchange, regulation 18705.1, subdivision (c)(2) provides that the reasonably foreseeable financial effect of a governmental decision is material if the decision will result in an increase or decrease to the business entity's gross revenues for a fiscal year in the amount of \$500,000 or more.

The financial effect of a governmental decision is considered "reasonably foreseeable" if there is a substantial likelihood, rather than just a mere possibility, that the effect will occur. (*In re Thorner* (1975) 1 FPPC Ops. 198.)

² See regulation 18703.1, subdivision (c), which provides that an official has a financial interest in a decision if it is reasonably foreseeable that the decision will have a material financial effect, distinguishable from its effect on the public generally, on a business entity that is a parent or subsidiary of a business entity in which the official has an economic interest.

SUMMARY OF THE FACTS

Respondent Vikram Budhraj is a consultant to the Department of Water Resources, in the California Energy Resources Scheduling division. Respondent is also the president and an owner of Electric Power Group, LLC (“EPG”), a consulting firm through which Respondent provides his consulting services.

On January 17, 2001, Governor Gray Davis declared that the energy crisis affecting California in 2000 and 2001 constituted a state of emergency, and issued an executive order requiring DWR to purchase energy on behalf of the State of California in an effort to stabilize the energy market. The following week, a state official contacted Respondent and requested his assistance in DWR’s efforts to purchase energy on behalf of the state. Respondent agreed and continues to work for DWR today. Pursuant to a contract between EPG and DWR, Respondent’s duties include, among other things, negotiating with energy suppliers, and using his industry expertise to devise a business strategy for DWR to follow when purchasing energy for the state.

By having a contractual obligation to advise DWR regarding the purchase of energy, Respondent qualifies as a consultant under regulation 18701. As a consultant to DWR, Respondent is a “public official” and therefore subject to the prohibition against conflicts of interests.

COUNTS 1 - 4

Participating in Making a Governmental Decision Involving Respondent’s Source of Income

Respondent Participated in Making A Governmental Decision

On February 21, 2001, DWR and Williams Energy Marketing & Trading Company (“Williams”) entered into a master power purchase and sale agreement, pursuant to which Williams agreed to supply approximately 1800 megawatts of base and peak power to the State of California for a period of ten years.

On or about and between January 25 and the middle of February 2001, Respondent served as an industry expert on a small team of advisors, who contacted and met with several energy companies, including Williams, in order to persuade the companies to sell energy to the state on a long-term basis. After meeting with Respondent and two other advisors, Williams submitted four proposals for the sale of energy to the state. For the next two weeks, negotiations ensued between Williams and various staff members and consultants from DWR. During the two-week negotiations between DWR and Williams, Respondent advised agency decision makers regarding the decisions to purchase energy from Williams based on his industry expertise.

On February 21, 2001, DWR and Williams entered into a master agreement that encompassed four separate purchases of energy.

The following table sets forth by count specific information regarding each of the four purchases, including the type, quantity, and price of the energy purchased, and the time for delivery:

Count	Energy Product	Quantity	Term	Delivery Date	Unit Price	Total Price
1	Base	600 MW	9.5 yr	06/01/01-12/31/10	\$62.5	\$1,835,415,000
2	Peak	300 MW	10 yr	04/01/01-12/31/10	\$87	\$1,149,513,600
3	Peak	400 MW	4.5 yr	06/01/01-12/31/05	\$62.5	\$378,400,000
4	Peak	500 MW	8 yr	01/01/03-12/31/10	\$62.5	\$1,252,500,000

By advising DWR regarding the four decisions to purchase energy from Williams, Respondent participated in making four governmental decisions as defined by regulation 18702.2. Although Respondent participated in the Williams decisions, Respondent was not a lead negotiator and did not negotiate the ultimate details of the final master agreement.

Respondent Had an Economic Interest in Williams

Within 12 months before Respondent participated in DWR's decisions to purchase energy from Williams, Respondent had received income from Williams through his consulting firm, EPG. In September 2000, EPG had agreed to provide consulting services to Williams in exchange for a \$15,000 monthly retainer fee. The consulting services were limited to a specific two-month project that was unrelated to negotiations between DWR and Williams.

As a more than 10 percent owner of EPG, Respondent had an interest of \$500 or more in the \$15,000 monthly retainer fee paid by Williams. Therefore, by receiving income from Williams totaling \$500 or more within the previous 12 months, Respondent had an economic interest in Williams for the purposes of section 87103, subdivision (c) at the time that he participated in DWR's decisions to purchase energy from Williams.

Respondent's Economic Interest Was Directly Involved in the Decisions

As a named party in DWR's decisions to purchase energy from Williams, Williams was "directly" involved in those decisions. (Regulation 18704.1.)

Applicable Materiality Standard

As Williams was directly involved in DWR's decisions to purchase energy from Williams, the standard for determining whether the effect of these decisions on Williams is material, under regulation 18705.1, subdivision (b)(1), is whether the decision will have any reasonably foreseeable financial effect on Williams.

It Was Reasonably Foreseeable That the Applicable Materiality Standard Would Be Met

Pursuant to each of the four purchase transactions between Williams and DWR as encompassed in the February 21, 2001 master agreement, DWR agreed to pay Williams in exchange for energy. It was, therefore, reasonably foreseeable that each of the four decisions to purchase energy from Williams would have at least some financial effect on Williams. As such, Respondent was prohibited from participating in making those decisions.

Accordingly, by advising DWR regarding the four decisions to purchase energy from Williams, Respondent participated in making four governmental decisions in which he had a financial interest, in violation of section 87100.

COUNT 5

Participating in a Making a Governmental Decision Involving Respondent's Investment Interest

Respondent Participated in Making a Governmental Decision

On July 6, 2001, DWR entered into a master power purchase and sale agreement with PacifiCorp Power Marketing, Inc. ("PacifiCorp"), pursuant to which PacifiCorp agreed to supply 300 megawatts of base power to the State of California for a period of ten years.

On or about and between January 25 and the middle of February 2001, Respondent served as an industry expert on a small team of advisors, who contacted and met with several energy companies, including PacifiCorp, in order to persuade the companies to sell energy to the state on a long-term basis. After meeting with Respondent and three other advisors, PacifiCorp submitted a proposal for the sale of energy to the state. For the next six months, negotiations ensued between PacifiCorp and various staff members and consultants from DWR. During the six-month negotiations between DWR and PacifiCorp, Respondent advised agency decision makers regarding the decision to purchase energy from PacifiCorp based on his industry expertise.

By advising DWR regarding the decision to purchase energy from PacifiCorp, Respondent participated in making a governmental decision as defined by regulation 18702.2. Although Respondent participated in the PacifiCorp decision, Respondent was not the lead negotiator and did not negotiate the ultimate details of the final master agreement.

Respondent Had an Economic Interest in the Parent Company of PacifiCorp

In 1996, through a community property interest in his wife's retirement account, Respondent had acquired an investment interest in the ScottishPower Group ("ScottishPower") worth approximately \$5,000 in 2001. ScottishPower is an international energy company that serves five million customers in the United Kingdom

and the United States, and is publicly traded on both the New York and the London Stock Exchanges. ScottishPower is the parent company of PacifiCorp. By having an investment interest in ScottishPower worth \$2,000 or more, Respondent had an economic interest in ScottishPower and all of its subsidiaries, including PacifiCorp, for the purposes of section 87103, subdivision (a).

Respondent sold his investment interest in ScottishPower immediately upon discovering that his investment interest may give rise to a conflict of interest. On June 15, 2001, before DWR entered into the July 6, 2001 PacifiCorp master agreement, the market value of Respondent's investment interest in ScottishPower was \$5,081 (\$29.20 per share). On July 30, 2001, after DWR entered into the July 6, 2001 PacifiCorp master agreement, Respondent sold his investment interest in ScottishPower for \$4,755 (\$27.50 per share).

Respondent's Economic Interest Was Directly Involved in the Decision

As a named party in DWR's decision to purchase energy from PacifiCorp, PacifiCorp was "directly" involved in that decision. (Regulation 18704.1.)

Applicable Materiality Standard

In 2001, PacifiCorp was listed on the New York Stock Exchange, and Respondent's investment interest in the parent company of PacifiCorp was worth less than \$25,000. Thus, the applicable materiality standard was the "indirect" materiality standard in regulation 18705.2, subdivision (b) for business entities that are publicly traded on the New York Stock Exchange. (Regulation 18705.1, subd. (b).) Under the applicable materiality standard in regulation 18705.1, subdivision (b), a reasonably foreseeable effect of \$500,000 on the annual gross revenues of a business entity listed on the New York Stock Exchange is considered to be material, and may therefore constitute the basis for a conflict of interest

It Was Reasonably Foreseeable That the Applicable Materiality Standard Would Be Met

Pursuant to the master agreement between PacifiCorp and DWR, DWR agreed to pay approximately \$1 billion to PacifiCorp for 300 megawatts of energy over a period of ten years. Thus, it was reasonably foreseeable that DWR's decision to sign the contract would have at least a \$500,000 effect on the annual gross revenues of PacifiCorp. As such, Respondent was prohibited from participating in making that decision.

Accordingly, by advising DWR regarding the decision to purchase energy from PacifiCorp, Respondent participated in making a governmental decision in which he had a financial interest, in violation of section 87100.

CONCLUSION

This matter consists of five counts of violating the conflict of interest provisions of the Act, and carries a maximum administrative penalty of Five Thousand Dollars (\$5,000) per violation for a total of Twenty-five Thousand Dollars (\$25,000).

The conduct of participating in a governmental decision in which an official has a financial interest is one of the more serious violations of the Act and usually calls for the imposition of a penalty at or near the maximum penalty of \$5,000.

In aggravation, Respondent impermissibly participated in making governmental decisions that involved the expenditure of a significant amount of public funds. This type of conduct carries with it the tendency to diminish the public's confidence in their governmental institutions, and the management of public funds by those institutions.

In mitigation, prior to becoming a consultant for DWR, Respondent had only worked in the private sector and did not have personal knowledge of the Political Reform Act. Despite this unfamiliarity, Respondent took care to avoid what he perceived to be a conflict of interest by formally notifying DWR of his former employment relationship with Southern California Edison, and by recusing himself from any negotiations involving Southern California Edison. However, Respondent was not aware that he was prohibited from participating in discussions involving Williams and PacifiCorp, with whom he had a less obvious financial relationship. At the time of the violations, DWR had not made any effort to inform Respondent of his obligations under the Political Reform Act as the agency was overwhelmed with the task of responding to the energy crisis as rapidly as possible in order to stabilize the energy market so as to avoid recurring blackouts. DWR did not notify Respondent of his obligations until June 15, 2001.

Accordingly, the facts of this case justify the imposition of an administrative penalty that is somewhat less than the maximum penalty in the amount of \$3,500 per violation, for a total of \$17,500.